

Charges reform
Markets and Economics Division
Ofwat
Centre City Tower
7 Hill Street
Birmingham B5 4UA

3rd July 2014

Re: Consultation on wholesale and retail charges for 2015-16 and charges scheme rules

Thank you for the opportunity to respond to your consultation. Our responses to your specific questions are included in the attached appendix, however I would like to highlight 3 main issues below.

- A specific issue relating to the setting of charges for 2015-16 we have, is that we do not currently know when the final menu choice for PR14 will be made. We are concerned that if this too late in January that we struggle to complete the process and meet the deadline to publish wholesale and end-user retail charges by the 2nd February 2015 deadline.
- We agree with a general 5% threshold for in relation to bill impacts however we have identified a group of non-household customers with volumes below 100m³ that are likely to experience bill increases of up to 10% for the next 2 years as a result of moving to more cost reflective wholesale charges. This is to ensure that our wholesale charges are fully cost reflective in time for market opening in April 2017.
- We agree that it is sensible to develop a standard wholesale charge template and have identified some additional lines that we would require to enable us to update the template for all of our wholesale charges. For example, there are still a number of our non-household customers that are unmeasured and we would expect wholesale charges for unmeasured customers to be included on the template. We would also expect other companies to require other different lines specific to their own range of tariffs.

Please do not hesitate to contact me if you have any further questions regarding this response.

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APPENDIX CONSULTATION QUESTIONS

Q1 Do you agree with the proposed approach to the development of charging arrangements in the 2015-20 period? If not, please explain and provide evidence for your view.

We understand and accept that charging rules will evolve progressively over time from 2015-16.

Q2 Do you agree with the nominal 5% bill change as a threshold for undertaking impact assessments? If not, please set out an alternative threshold and provide evidence for this view. Should the same threshold apply to all customer types?

In general yes, if changes can be phased in over a number of years. We anticipate that our NHH standing charges will need to increase by £24 which we anticipate will result in an impact of up to 10% for the first 2 years for low volume customers under 100m³. This is to ensure that this component of the tariff is properly cost reflective before market opening.

Our experience from tariff harmonisation of household customers is that changes of around £5-10 above average increases do not illicit a significant negative customer response so a 5% nominal figure seems acceptable.

Q3 Do you agree with such a threshold being a short-term measure? If so, when should Ofwat remove such a requirement?

Ofwat should keep the threshold under review and reassess it at the next price review.

Q4 Do you agree with the draft schedule for presenting standardised charging schedule presented in appendix 7? If not, please provide alternative proposals.

In principle we are happy to use a standard schedule. We have a number of different charging zones which will have different wholesale charges so we would need to produce a schedule for each zone.

With regard to the schedule our observations are:

1. We have a greater number of meter standing charges. Presumably the schedule should reflect all meter sizes.
2. We have three volumetric fixed bands for our existing large user tariffs; 10 – 50Mla, 50 – 250Mla and over 250Mla. We are not clear whether we should just show these three volume bands or show fixed charges for each volume range in the schedule.
3. We do not have a rising block tariff. Presumably we would leave this area blank.
4. We currently have an optional seasonal tariff for customers over 50Mla. Would we show this as an additional tariff?
5. We currently have an optional subscription demand tariff for customers over 50Mla which has a fixed charge, a daily capacity charge, a volumetric charge and a penalty charge for excess demand. Would we show this as an additional tariff?

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6. We have a number of unmeasured non-household customers charged by RV or fixed charge. We assume that the wholesale charge for these customers will be based on RV or a fixed charge. Hence we need to include wholesale charges for unmeasured customers on the schedule.

Q5 Should charges associated with Open Water and market readiness be included as a separate increment to the volumetric charge in the wholesale charging schedule?

In theory yes, however it may be simpler to administer through the standing charge. Also, if it is part of the volumetric charge there is greater likelihood that monies are over or under collected in the charging year and if so this would need re-correcting in the following year. Using the standing charge approach would reduce this risk.

Q6 Beyond 2015, do you agree that wholesale charges should be published in advance of retail charges? If so, please provide views on how far in advance is appropriate.

Yes and we consider up to 1 month to be appropriate. However, this may cause some timing difficulties if non-household charges would need to be published at the end of January in line with household customers. For example, if the November RPI is continued to be used to inflate the wholesale price this is not usually available until after the middle of December and therefore it would be difficult for wholesalers to publish charges to the retailers by the end of December. One consideration might be to use an earlier month RPI to inflate wholesale prices.

Q7 Do you consider that Ofwat should require retail water bills to provide a breakdown of retail and wholesale charges?

An important consideration is that bills are easily understood by customers. Other utilities such as energy and telecoms do not provide breakdown between retail and wholesale costs. We consider that the decision should be left to companies based on their customer needs.

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